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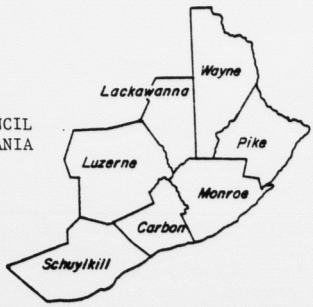

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SELLING TAX CREDITS: A NEW BUSINESS OPPORTUNITY FOR NORTHEASTERN PENNSYLVANIA

As a result of the new 1981 tax law, the Economic Recovery Act, corporations and businesses with big tax benefits from spending on new equipment, can sell their unneeded investment credits and depreciation deductions to other firms. Since the passage of the Act, several large corporations have done business with other large corporations for the purpose of conducting such trades. It is estimated, for example, that IBM is paying Ford Motor Company $100 to $200 million for some $100 to $200 million in tax benefits. These benefits are being generated by $1 billion worth of machinery and tooling acquired by Ford in 1981. IBM has profits that it can shelter from tax by using Ford deductions and credits. Ford, on the other hand, is losing money and does not need the breaks to cut taxes. Rather than stockpiling benefits for the future, Ford will get immediate cash by selling them.

The transfer of tax benefits is accomplished through a complicated leasing arrangement in which the firm with unused benefits typically sells equipment on credit to a second firm; it then leases the equipment back. The second firm gets to deduct the investment credits and depreciation write-off on the equipment, while the first firm gets an initial cash payment.

Another example of the use of the tax credit transaction applies to public transit systems. The New York State Metropolitan Transportation Authority is selling buses and railway cars to Metro Media Incorporated, and leasing them back. This represents a $15.5 million cash payment, which is brand new money for the non-profit transportation authority since it does not take taxes against which to write off depreciation and tax credits.

Many other familiar profit and non-profit companies of national reputation have already taken advantage of this tax credit trading system.

Up until November 13, 1981, both new and existing equipment could be used as a basis for trading. After November 13, leases can be written only on new equipment.